

**REPORT OF THE AUDIT OF THE
KNOX COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2015**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**

EXECUTIVE SUMMARY
AUDIT OF THE
KNOX COUNTY FISCAL COURT

June 30, 2015

The Auditor of Public Accounts has completed the audit of the Knox County Fiscal Court for fiscal year ended June 30, 2015.

We have issued an unmodified opinion, based on our audit on the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Knox County Fiscal Court.

Financial Condition:

The Knox County Fiscal Court had total receipts of \$10,421,439 and disbursements of \$11,852,351 in fiscal year 2015. This resulted in a total ending fund balance of \$4,703,778, which is a decrease of \$1,430,912 from the prior year.

Report Comments:

- 2015-001 The Knox County Fiscal Court Lacks Adequate Segregation Of Duties Over Disbursements
- 2015-002 The Knox County Fiscal Court Did Not Have Strong Internal Controls Over Disbursements
- 2015-003 The Knox County Fiscal Court Did Not Have Adequate Internal Controls Over Gravel Inventory
- 2015-004 The Knox County Fiscal Court Did Not Follow Proper Bid Laws And Regulations
- 2015-005 The Knox County Fiscal Court Did Not Ensure The Same Level Of Health Insurance Benefits Are Provided To All County Employees As Stated In Kentucky Attorney General Opinion (OAG) 94-15
- 2015-006 The Knox County Jail Commissary Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

Deposits:

The fiscal court deposits were insured and collateralized by bank securities.

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable J.M. Hall, Knox County Judge/Executive
Members of the Knox County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Knox County Fiscal Court, for the year ended June 30, 2015, and the related notes to the financial statement which collectively comprise the Knox County Fiscal Court's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. This includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Audit Guide for Fiscal Court Audits* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.



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Auditor's Responsibility (Continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described more fully in Note 1 of the financial statement, the financial statement is prepared by Knox County Fiscal Court on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Knox County Fiscal Court as of June 30, 2015, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of Knox County Fiscal Court as of June 30, 2015, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Emphasis of Matters

As discussed in Note 8 to the financial statements, the entity had numerous significant transactions with a business controlled by, and with people who are related to, the officers and directors of the entity. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of Knox County Fiscal Court. The budgetary comparison schedules and capital asset schedule are presented for purposes of additional analysis and are not a required part of the financial statement, however they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws.

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 Honorable Matthew G. Bevin, Governor
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 Honorable J.M. Hall, Knox County Judge/Executive
 Members of the Knox County Fiscal Court

Other Matters (Continued)

Supplementary Information (Continued)

The accompanying budgetary comparison schedules and capital asset schedule are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedules and capital asset schedule are fairly stated in all material respects in relation to the financial statement as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2016 on our consideration of Knox County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Knox County Fiscal Court's internal control over financial reporting and compliance.

Based on the results of our audit, we present the accompanying comments and recommendations included herein, which discusses the following report comments:

- 2015-001 The Knox County Fiscal Court Lacks Adequate Segregation Of Duties Over Disbursements
- 2015-002 The Knox County Fiscal Court Did Not Have Strong Internal Controls Over Disbursements
- 2015-003 The Knox County Fiscal Court Did Not Have Adequate Internal Controls Over Gravel Inventory
- 2015-004 The Knox County Fiscal Court Did Not Follow Proper Bid Laws And Regulations
- 2015-005 The Knox County Fiscal Court Did Not Ensure The Same Level Of Health Insurance Benefits Are Provided To All County Employees As Stated In Kentucky Attorney General Opinion (OAG) 94-15
- 2015-006 The Knox County Jail Commissary Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

Respectfully submitted,



Mike Harmon
 Auditor of Public Accounts

September 13, 2016

KNOX COUNTY OFFICIALS

For The Year Ended June 30, 2015

Fiscal Court Members:

J.M Hall	County Judge/Executive
Carson Gilbert	Magistrate
Stacey Roark	Magistrate
Jerry Cox	Magistrate
Jason Lake	Magistrate
Giulio Cima	Magistrate

Other Elected Officials:

Gilbert Holland	County Attorney
Mary Hammons	Jailer
Mike Corey	County Clerk
Greg Helton	Circuit Court Clerk
Mike Smith	Sheriff
Bill Oxendine	Property Valuation Administrator
Mike Blevins	Coroner

Appointed Personnel:

Jack Ketchum	County Treasurer
John Tye	Assistant County Treasurer
Jim Tye	Deputy Judge Executive
Wayne Willis	Assistant Occupational License Fee Administrator and Enforcement Officer
Tammy Peters	Finance Officer

**KNOX COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS**

For The Year Ended June 30, 2015

KNOX COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS

For The Year Ended June 30, 2015

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 1,546,708	\$	\$
In Lieu Tax Payments			
Excess Fees	353,970		
Licenses and Permits	132,663		
Intergovernmental	370,072	2,347,191	177,269
Charges for Services	554		56,585
Miscellaneous	606,427	262,033	24,015
Interest	12,074	2,047	373
Total Receipts	<u>3,022,468</u>	<u>2,611,271</u>	<u>258,242</u>
DISBURSEMENTS			
General Government	1,385,270		
Protection to Persons and Property	57,239		1,584,119
General Health and Sanitation	2,562,956		
Recreation and Culture	3,447		
Roads		2,687,694	
Debt Service	183,000		37,011
Capital Projects			6,000
Administration	683,660	304,501	286,978
Total Disbursements	<u>4,875,572</u>	<u>2,992,195</u>	<u>1,914,108</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,853,104)</u>	<u>(380,924)</u>	<u>(1,655,866)</u>
Other Adjustments to Cash (Uses)			
Transfers From Other Funds	2,291,068	300,000	1,630,000
Transfers To Other Funds	<u>(1,808,000)</u>		
Total Other Adjustments to Cash (Uses)	<u>483,068</u>	<u>300,000</u>	<u>1,630,000</u>
Net Change in Fund Balance	(1,370,036)	(80,924)	(25,866)
Fund Balance - Beginning (Restated)	5,258,607	261,305	82,527
Fund Balance - Ending	<u>\$ 3,888,571</u>	<u>\$ 180,381</u>	<u>\$ 56,661</u>
Composition of Fund Balance			
Bank Balance	\$ 3,917,804	\$ 203,658	\$ 77,458
Plus: Deposits In Transit			
Less: Outstanding Checks	<u>(29,233)</u>	<u>(23,277)</u>	<u>(20,797)</u>
Fund Balance - Ending	<u>\$ 3,888,571</u>	<u>\$ 180,381</u>	<u>\$ 56,661</u>

The accompanying notes are an integral part of the financial statement.

KNOX COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2015
(Continued)

Local Government Economic Assistance Fund	Budgeted Funds						
	911 Fund	LEPC Fund	Occupational License Fee Fund	South Kentucky Regional Business Park Fund	Hospital Sinking Fund	Federal Program Fund	Pride Fund
\$	\$ 245,050	\$	\$ 2,842,758	\$ 180,555	\$	\$	\$
799,833	155,000	903					
1,987	253		1,326	434	1		
<u>801,820</u>	<u>400,303</u>	<u>903</u>	<u>2,844,084</u>	<u>180,989</u>	<u>1</u>		
25,000			740,513	173,241			
110,000	406,245	32					
17,500							
2,500							
31,850					56,698		
64,450							
47	134,900						
<u>251,347</u>	<u>541,145</u>	<u>32</u>	<u>740,513</u>	<u>173,241</u>	<u>56,698</u>		
550,473	(140,842)	871	2,103,571	7,748	(56,697)		
	120,000				58,000		
<u>(500,000)</u>			<u>(2,091,068)</u>				
<u>(500,000)</u>	<u>120,000</u>		<u>(2,091,068)</u>		<u>58,000</u>		
50,473	(20,842)	871	12,503	7,748	1,303		
250,688	65,907	3,768	21,839	128,692	1,197	27,293	83
<u>\$ 301,161</u>	<u>\$ 45,065</u>	<u>\$ 4,639</u>	<u>\$ 34,342</u>	<u>\$ 136,440</u>	<u>\$ 2,500</u>	<u>\$ 27,293</u>	<u>\$ 83</u>
\$ 301,161	\$ 45,459	\$ 4,639	\$ 39,773	\$ 136,440	\$ 2,500	\$ 27,293	\$ 83
	(394)		(5,431)				
<u>\$ 301,161</u>	<u>\$ 45,065</u>	<u>\$ 4,639</u>	<u>\$ 34,342</u>	<u>\$ 136,440</u>	<u>\$ 2,500</u>	<u>\$ 27,293</u>	<u>\$ 83</u>

The accompanying notes are an integral part of the financial statement.

KNOX COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2015
(Continued)

	<u>Unbudgeted Funds</u>		
	<u>Public Properties Corporation Fund</u>	<u>Jail Commissary Fund</u>	<u>Total Funds</u>
RECEIPTS			
Taxes	\$	\$	\$ 4,815,071
In Lieu Tax Payments			
Excess Fees			353,970
Licenses and Permits			132,663
Intergovernmental	175,448		4,025,716
Charges for Services			57,139
Miscellaneous		125,803	1,018,278
Interest	5	102	18,602
Total Receipts	<u>175,453</u>	<u>125,905</u>	<u>10,421,439</u>
DISBURSEMENTS			
General Government			2,324,024
Protection to Persons and Property			2,157,635
General Health and Sanitation			2,580,456
Recreation and Culture		132,052	137,999
Roads			2,687,694
Debt Service	175,448		484,007
Capital Projects			70,450
Administration			1,410,086
Total Disbursements	<u>175,448</u>	<u>132,052</u>	<u>11,852,351</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>5</u>	<u>(6,147)</u>	<u>(1,430,912)</u>
Other Adjustments to Cash (Uses)			
Transfers From Other Funds			4,399,068
Transfers To Other Funds			(4,399,068)
Total Other Adjustments to Cash (Uses)			<u>(1,430,912)</u>
Net Change in Fund Balance	5	(6,147)	(1,430,912)
Fund Balance - Beginning (Restated)	6,574	26,210	6,134,690
Fund Balance - Ending	<u>\$ 6,579</u>	<u>\$ 20,063</u>	<u>\$ 4,703,778</u>
Composition of Fund Balance			
Bank Balance	\$ 6,579	\$ 21,217	\$ 4,784,064
Deposits In Transit		237	237
Less Outstanding Checks		(1,391)	(80,523)
Ending Fund Balance	<u>\$ 6,579</u>	<u>\$ 20,063</u>	<u>\$ 4,703,778</u>

The accompanying notes are an integral part of the financial statement.

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TO THE FINANCIAL STATEMENT**

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KNOX COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2015

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of Knox County includes all budgeted and unbudgeted funds under the control of the Knox County Fiscal Court. Budgeted funds included within the reporting entity are those funds presented in the county's approved annual budget and reported on the quarterly reports submitted to the Department for Local Government. Unbudgeted funds may include non-fiduciary financial activities, private purpose trust funds and internal service funds that are within the county's control. Unbudgeted funds may also include any corporation to act as the fiscal court in the acquisition and financing of any public project which may be undertaken by the fiscal court pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the fiscal court. The unbudgeted funds are not presented in the annual approved budget or in the quarterly reports submitted to the Department for Local Government.

B. Basis of Accounting

The financial statement is presented on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board. This basis of accounting involves the reporting of fund balances and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) to meet the financial reporting requirements of the Department for Local Government and the laws of the Commonwealth of Kentucky.

This regulatory basis of accounting differs from GAAP primarily because the financial statement format does not include the GAAP presentations of government-wide and fund financial statements, cash receipts are recognized when received in cash rather than when earned and susceptible to accrual, and cash disbursements are recognized when paid rather than when incurred or subject to accrual.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary sources of receipts for this fund are state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

KNOX COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

Local Government Economic Assistance Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary sources of receipts for this fund are grants from the state and federal governments.

911 Fund - The primary purpose of this fund is to account for the dispatch expenses of the county. The primary source of receipts for this fund is the 911 telephone surcharge.

Local Emergency Planning Committee (LEPC) - The primary purpose of this fund is to account for emergency planning expenses of the county. The primary source of receipts for this fund is state grants.

Occupational License Fee Fund - The primary purpose of this fund is to account for occupational license fees collected by the county on behalf of the county of city. The primary source of receipts for this fund is local business owners.

South Kentucky Regional Business Park - The primary purpose of this fund is to account for activities related to the funding of the Business Park. The primary source of receipts for this fund is local business owners.

Hospital Sinking Fund - The primary source of this fund is to account for activities related to the debt activity on the General Obligation Refunding Bonds, Series 2005 Non-Refunded Portion. The primary source of receipts for this fund is transfers from the general fund or payments from the Knox County Hospital.

Federal Program Fund - The primary purpose of this fund is to account for activity related to federal grants. The primary source of receipts for this fund is federal grants.

Pride Fund - The primary purpose of this fund is to account for activity related to the Kentucky Pride grant. The primary source of receipts for this fund is state grants.

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

Public Properties Corporation Fund - The primary purpose of this fund is to account for receipts from the Administrative Office of the Courts used to offset the county's required payments on its debt related to the courthouse.

KNOX COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Unbudgeted Funds (Continued)

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit and to enhance the well-being of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Commissary Fund.

D. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The county judge/executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the Jail Commissary Fund to be budgeted because the fiscal court does not approve the expenses of this fund.

The State Local Finance Officer does not require the Public Properties Corporation Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

E. Knox County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Knox County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statement of Knox County Fiscal Court.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

KNOX COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Deposits and Investments

The government's fund balance is considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition. The government's fund balance includes cash and cash equivalents and investments.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

G. Long-term Obligations

The fund financial statement recognizes bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as disbursements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as disbursements. Debt proceeds are reported as other adjustments to cash.

Note 2. Deposits

The fiscal court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of June 30, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

KNOX COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2015.

	General Fund	LGEA Fund	Occupational License Fund	Total Transfers In
General Fund	\$	\$ 200,000	\$ 2,091,068	\$ 2,291,068
Road Fund		300,000		300,000
Jail Fund	1,630,000			1,630,000
911 Fund	120,000			120,000
Hospital Sinking Fund	58,000			58,000
Total Transfers Out	<u>\$ 1,808,000</u>	<u>\$ 500,000</u>	<u>\$ 2,091,068</u>	<u>\$ 4,399,068</u>

Reason for transfers:

To move resources from and to the general fund and other funds, for budgetary purposes, to the funds that will expend them.

Note 4. Long-term Debt

A. General Obligation Refunding Bonds, Series 2005 Non-Refunded Portion

On December 1, 2005, the Knox County Fiscal Court issued \$4,250,000 of General Obligation Refunding Bonds for the Knox County Hospital. On December 28, 2006, the fiscal court issued General Obligation Refunding Bonds, Series 2006 which defeased the remainder of the outstanding Series 2005 bonds at that date with the exception of \$985,000. The non-refunded portion of the Series 2005 Bonds have interest rates from 2.8% through 4.5%. The final maturity of the Series 2005 Bonds is December 1, 2035. The bonds outstanding at June 30, 2015 totaled \$830,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2016	\$ 20,000	\$ 35,937
2017	20,000	35,157
2018	25,000	34,258
2019	25,000	33,245
2020	30,000	32,118
2021-2025	175,000	139,387
2026-2030	205,000	98,156
2031-2035	270,000	44,775
2036	60,000	1,350
Totals	<u>\$ 830,000</u>	<u>\$ 454,383</u>

KNOX COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 4. Long-term Debt (Continued)

B. General Obligation Refunding Bonds, Series 2006

1. On December 1, 2006, the Knox County Fiscal Court advance refunded the outstanding 2004A, 2004B, and a portion of the 2005 series bond issued by the Knox County Fiscal Court. The Series 2004A and 2005 Refunded Portion have been called and total payments of \$5,555,000. The 2004B bonds will be called on December 1, 2015. Total bonds outstanding as of June 30, 2015 totaled \$5,600,000. As of June 30, 2015, the escrow account had a cost balance of \$3,790,165 and a market value of \$5,752,838.

2. On April 3, 2014, the Knox County Fiscal Court advanced refunded the General Obligation Refunding Bonds, Series 2006 with proceeds from the sale of the Knox County Hospital to the Knox County Hospital Taxing District. The bonds will be called on December 1, 2016. Total bonds outstanding as of June 30, 2015 totaled \$14,165,000. As of June 30, 2015, the escrow account had a balance of \$15,253,046.

C. Hospital – General Obligation Bond Anticipation Refunding Note Taxable, Series 2014

On May 29, 2014, the Knox County Fiscal Court issued General Obligation Bond Anticipation Refund Notes, Taxable Series 2014 in the amount of \$6,000,000 at an interest rate of 3% with interest to be paid semi-annually on June 1 and December 1, in order to pay off the Taxable General Bond Anticipation Notes which were paid off June 1, 2014. The new note has a maturity date of June 1, 2016. The principal amount as of June 30, 2015 was \$6,000,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2016	\$ 6,000,000	\$ 180,000
Totals	<u>\$ 6,000,000</u>	<u>\$ 180,000</u>

D. First Mortgage Revenue Refunding Bonds, Series 2010

On February 17, 2010, the Knox County Public Properties Corporation issued \$1,635,000 of First Mortgage Refunding Revenue Bonds to pay off the 1997 Series Bonds which were originally issued for courthouse improvements and construction of the courthouse annex. The 2010 series bonds were issued at various interest rates from 1% through 3.625%. The final maturity date of the 2010 series bonds is September 1, 2021. Total bonds outstanding as of June 30, 2015 were \$1,095,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2016	\$ 145,000	\$ 32,486
2017	145,000	28,861
2018	150,000	24,618
2019	155,000	19,965
2020	160,000	14,922
2021-2022	<u>340,000</u>	<u>12,304</u>
Totals	<u>\$ 1,095,000</u>	<u>\$ 133,156</u>

KNOX COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 4. Long-term Debt (Continued)

E. Jail Participation Agreement

The Kentucky Local Correctional Facilities Construction Authority (KLCFCA), an independent corporation agency and instrumentality of Kentucky, issued revenue bonds in the amount of \$276,310 on September 29, 2004 for the purpose of constructing a jail facility. On October 1, 2004, the fiscal court entered into a lease and participation agreement with KLCFCA for \$276,310 principal plus interest of 6.34% on the issue. As of June 30, 2015, the principal balance was paid in full.

F. Kentucky Area Development District - Vehicles

On September 1, 2005, the Fiscal Court entered into a capital lease agreement with Kentucky Area Development District for the purpose of purchasing vehicles. The principal of the lease was \$495,000 with repayment to be made over an eleven-period. The lease was issued at various interest rates from 3.4% through 4.5%. As of June 30, 2015, the principal balance was paid in full.

G. Changes In Long-term Debt

Long-term debt activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds	\$ 6,850,000	\$	\$ 20,000	\$ 6,830,000	\$ 6,020,000
Revenue Bonds	1,235,000		140,000	1,095,000	145,000
Financing Obligations	65,874		65,874		
Total Long-term Debt	<u>\$ 8,150,874</u>	<u>\$ 0</u>	<u>\$ 225,874</u>	<u>\$ 7,925,000</u>	<u>\$ 6,165,000</u>

Note 5. Employee Retirement System

A. Plan Description

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). This is a cost sharing, multiple employer defined benefit pension plan that covers all eligible regular full-time members employed in non-hazardous positions in the county. The Plan provides for retirement, disability and death benefits to plan members. Retirement benefits may be extended to beneficiaries of the plan members under certain circumstances. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute six percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 17.67 percent.

KNOX COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 5. Employee Retirement System (Continued)

A. Plan Description (Continued)

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Members contribute five percent (nonhazardous) of their annual creditable compensation and one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a four percent (nonhazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

The county's contribution for FY 2013 was \$377,414, FY 2014 was \$373,333, and FY 2015 was \$336,144.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

KRS issues a publicly available annual financial report that includes financial statements and required supplementary information on CERS. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

KNOX COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 5. Employee Retirement System (Continued)

B. Net Pension Liability

As promulgated by GASB Statement No. 68 the total pension liability for CERS was determined by an actuarial valuation as of June 30, 2014. The total net pension liability for all employers participating in CERS was determined by an actuarial valuation as of June 30, 2014, measured as of the same date and is as follows: non-hazardous \$3,244,377,000 and hazardous \$1,201,825,000, for a total net pension liability of \$4,446,202,000 as of June 30, 2014. Based on these requirements, Knox County's proportionate share of the net pension liability as of June 30, 2015 is:

	<u>June 30, 2014</u>	<u>June 30, 2015</u>
Non-Hazardous	\$ 4,498,000	\$ 3,975,000
Totals	<u>\$ 4,498,000</u>	<u>\$ 3,975,000</u>

The complete actuarial valuation report including all actuarial assumptions and methods is publically available on the website at www.kyret.ky.gov or can be obtained as described in the paragraph above.

Note 6. Deferred Compensation

The Knox County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 7. Insurance

For the fiscal year ended June 30, 2015, Knox County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

KNOX COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 8. Related Party Transaction

During the fiscal year ended June 30, 2015, the Knox County Fiscal Court paid a total of \$278,046 to a business which is owned by the county judge/executive's uncle. Because of the nature of the relationship between the vendor and the county judge/executive, this is considered to be a related party transaction.

Note 9. Prior Period Adjustment

The beginning balance reported on the Statement of Receipts, Disbursements, and Changes in Fund Balances – Regulatory Basis for the road and jail funds have been restated by an increase of \$9 and \$401, respectively. The restatements are due to prior year voided checks.

Note 10. Subsequent Events

On October 12, 2016, a Knox County magistrate was indicted by a federal grand jury for having county workers illegally spread gravel on private driveways, directing county workers to install drainage culverts on private property, and using his own pickup truck to deliver gravel from the county stockpile to private driveways. The period covered in the indictment was June 2013 to June 2014.

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KNOX COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

KNOX COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,501,500	\$ 1,501,500	\$ 1,546,708	\$ 45,208
Excess Fees	455,000	455,000	353,970	(101,030)
Licenses and Permits	135,000	135,000	132,663	(2,337)
Intergovernmental	336,000	336,000	370,072	34,072
Charges for Services	50,000	50,000	554	(49,446)
Miscellaneous	62,000	62,000	606,427	544,427
Interest	4,000	4,000	12,074	8,074
Total Receipts	<u>2,543,500</u>	<u>2,543,500</u>	<u>3,022,468</u>	<u>478,968</u>
DISBURSEMENTS				
General Government	1,394,000	1,566,000	1,385,270	180,730
Protection to Persons and Property	96,000	102,200	57,239	44,961
General Health and Sanitation	214,500	228,300	2,562,956	(2,334,656)
Recreation and Culture	8,000	8,000	3,447	4,553
Debt Service			183,000	(183,000)
Capital Projects		745,000		745,000
Administration	2,446,702	1,568,702	683,660	885,042
Total Disbursements	<u>4,159,202</u>	<u>4,218,202</u>	<u>4,875,572</u>	<u>(657,370)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,615,702)</u>	<u>(1,674,702)</u>	<u>(1,853,104)</u>	<u>(178,402)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			2,291,068	2,291,068
Transfers To Other Funds	(1,141,500)	(1,141,500)	(1,808,000)	(666,500)
Total Other Adjustments to Cash (Uses)	<u>(1,141,500)</u>	<u>(1,141,500)</u>	<u>483,068</u>	<u>1,624,568</u>
Net Change in Fund Balance	(2,757,202)	(2,816,202)	(1,370,036)	1,446,166
Fund Balance Beginning	<u>2,757,202</u>	<u>2,757,202</u>	<u>5,258,607</u>	<u>2,501,405</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (59,000)</u>	<u>\$ 3,888,571</u>	<u>\$ 3,947,571</u>

KNOX COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 2,405,000	\$ 2,405,000	\$ 2,347,191	\$ (57,809)
Miscellaneous	260,500	260,500	262,033	1,533
Interest	4,000	4,000	2,047	(1,953)
Total Receipts	<u>2,669,500</u>	<u>2,669,500</u>	<u>2,611,271</u>	<u>(58,229)</u>
DISBURSEMENTS				
Roads	2,854,000	2,922,500	2,687,694	234,806
Administration	1,131,000	1,362,500	304,501	1,057,999
Total Disbursements	<u>3,985,000</u>	<u>4,285,000</u>	<u>2,992,195</u>	<u>1,292,805</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,315,500)</u>	<u>(1,615,500)</u>	<u>(380,924)</u>	<u>1,234,576</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	1,141,500	1,141,500	300,000	(841,500)
Total Other Adjustments to Cash (Uses)	<u>1,141,500</u>	<u>1,141,500</u>	<u>300,000</u>	<u>(841,500)</u>
Net Change in Fund Balance	(174,000)	(474,000)	(80,924)	393,076
Fund Balance Beginning	174,000	174,000	261,305	87,305
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (300,000)</u>	<u>\$ 180,381</u>	<u>\$ 480,381</u>

KNOX COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 135,000	\$ 135,000	\$ 177,269	\$ 42,269
Charges for Services	73,000	73,000	56,585	(16,415)
Miscellaneous	22,500	22,500	24,015	1,515
Interest	500	500	373	(127)
Total Receipts	<u>231,000</u>	<u>231,000</u>	<u>258,242</u>	<u>27,242</u>
DISBURSEMENTS				
Protection to Persons and Property	1,683,000	1,754,100	1,584,119	169,981
Debt Service	38,000	38,000	37,011	989
Capital Projects		6,000	6,000	
Administration	282,500	305,400	286,978	18,422
Total Disbursements	<u>2,003,500</u>	<u>2,103,500</u>	<u>1,914,108</u>	<u>189,392</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,772,500)</u>	<u>(1,872,500)</u>	<u>(1,655,866)</u>	<u>216,634</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	1,716,500	1,716,500	1,630,000	(86,500)
Total Other Adjustments to Cash (Uses)	<u>1,716,500</u>	<u>1,716,500</u>	<u>1,630,000</u>	<u>(86,500)</u>
Net Change in Fund Balance	(56,000)	(156,000)	(25,866)	130,134
Fund Balance Beginning	56,000	56,000	82,527	26,527
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (100,000)</u>	<u>\$ 56,661</u>	<u>\$ 156,661</u>

KNOX COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 596,000	\$ 596,000	\$ 799,833	\$ 203,833
Interest	2,000	2,000	1,987	(13)
Total Receipts	<u>598,000</u>	<u>598,000</u>	<u>801,820</u>	<u>203,820</u>
DISBURSEMENTS				
General Government			25,000	(25,000)
Protection to Persons and Property			110,000	(110,000)
Social Services			17,500	(17,500)
Recreation and Culture			2,500	(2,500)
Roads	35,000	35,000		35,000
Debt Service			31,850	(31,850)
Capital Projects	600,000	240,000	64,450	175,550
Administration	173,798	33,798	47	33,751
Total Disbursements	<u>808,798</u>	<u>308,798</u>	<u>251,347</u>	<u>57,451</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(210,798)</u>	<u>289,202</u>	<u>550,473</u>	<u>261,271</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds			(500,000)	(500,000)
Total Other Adjustments to Cash (Uses)			<u>(500,000)</u>	<u>(500,000)</u>
Net Change in Fund Balance	(210,798)	289,202	50,473	(238,729)
Fund Balance Beginning	210,798	210,798	250,688	39,890
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 500,000</u>	<u>\$ 301,161</u>	<u>\$ (198,839)</u>

KNOX COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

	911 FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 240,000	\$ 240,000	\$ 245,050	\$ 5,050
Intergovernmental	210,000	210,000	155,000	(55,000)
Miscellaneous	500	500		(500)
Interest	500	500	253	(247)
Total Receipts	<u>451,000</u>	<u>451,000</u>	<u>400,303</u>	<u>(50,697)</u>
DISBURSEMENTS				
Protection to Persons and Property	451,000	478,800	406,245	72,555
Administration	197,000	169,200	134,900	34,300
Total Disbursements	<u>648,000</u>	<u>648,000</u>	<u>541,145</u>	<u>106,855</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(197,000)</u>	<u>(197,000)</u>	<u>(140,842)</u>	<u>56,158</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	149,600	149,600	120,000	(29,600)
Total Other Adjustments to Cash (Uses)	<u>149,600</u>	<u>149,600</u>	<u>120,000</u>	<u>(29,600)</u>
Net Change in Fund Balance	(47,400)	(47,400)	(20,842)	26,558
Fund Balance Beginning	47,400	47,400	65,907	18,507
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 45,065</u>	<u>\$ 45,065</u>

KNOX COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

	LEPC FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,000	\$ 1,000	\$ 903	\$ (97)
Total Receipts	<u>1,000</u>	<u>1,000</u>	<u>903</u>	<u>(97)</u>
DISBURSEMENTS				
Protection to Persons and Property	1,000	1,000	32	968
Administration	3,700	3,700		3,700
Total Disbursements	<u>4,700</u>	<u>4,700</u>	<u>32</u>	<u>4,668</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(3,700)</u>	<u>(3,700)</u>	871	<u>4,571</u>
Net Change in Fund Balance	(3,700)	(3,700)	871	4,571
Fund Balance Beginning	<u>3,700</u>	<u>3,700</u>	<u>3,768</u>	<u>68</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,639</u>	<u>\$ 4,639</u>

KNOX COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

OCCUPATIONAL LICENSE FEE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 2,600,000	\$ 2,600,000	\$ 2,842,758	\$ 242,758
Interest	1,000	1,000	1,326	326
Total Receipts	<u>2,601,000</u>	<u>2,601,000</u>	<u>2,844,084</u>	<u>243,084</u>
DISBURSEMENTS				
General Government	685,000	726,000	740,513	(14,513)
Total Disbursements	<u>685,000</u>	<u>726,000</u>	<u>740,513</u>	<u>(14,513)</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>1,916,000</u>	<u>1,875,000</u>	<u>2,103,571</u>	<u>228,571</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	(1,922,900)	(1,922,900)	(2,091,068)	(168,168)
Total Other Adjustments to Cash (Uses)	<u>(1,922,900)</u>	<u>(1,922,900)</u>	<u>(2,091,068)</u>	<u>(168,168)</u>
Net Change in Fund Balance	(6,900)	(47,900)	12,503	60,403
Fund Balance Beginning	6,900	6,900	21,839	14,939
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (41,000)</u>	<u>\$ 34,342</u>	<u>\$ 75,342</u>

KNOX COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

SOUTH KENTUCKY REGIONAL BUSINESS PARK FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 160,000	\$ 160,000	\$ 180,555	\$ 20,555
Interest	500	500	434	(66)
Total Receipts	<u>160,500</u>	<u>160,500</u>	<u>180,989</u>	<u>20,489</u>
DISBURSEMENTS				
General Government	155,000	173,241	173,241	
Administration	134,000	115,759		115,759
Total Disbursements	<u>289,000</u>	<u>289,000</u>	<u>173,241</u>	<u>115,759</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(128,500)</u>	<u>(128,500)</u>	<u>7,748</u>	<u>136,248</u>
Net Change in Fund Balance	(128,500)	(128,500)	7,748	136,248
Fund Balance Beginning	<u>128,500</u>	<u>128,500</u>	<u>128,692</u>	<u>192</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 136,440</u>	<u>\$ 136,440</u>

KNOX COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

HOSPITAL SINKING FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Interest	\$	\$	\$ 1	\$ 1
Total Receipts			1	1
DISBURSEMENTS				
Debt Service	58,000	58,000	56,698	1,302
Total Disbursements	58,000	58,000	56,698	1,302
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(58,000)	(58,000)	(56,697)	1,303
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	56,800	56,800	58,000	1,200
Total Other Adjustments to Cash (Uses)	56,800	56,800	58,000	1,200
Net Change in Fund Balance	(1,200)	(1,200)	1,303	2,503
Fund Balance Beginning	1,200	1,200	1,197	(3)
Fund Balance - Ending	\$ 0	\$ 0	\$ 2,500	\$ 2,500

KNOX COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

	FEDERAL PROGRAM FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
DISBURSEMENTS				
General Health and Sanitation	\$ 28,000	\$ 28,000	\$	\$ 28,000
Total Disbursements	<u>28,000</u>	<u>28,000</u>		<u>28,000</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(28,000)</u>	<u>(28,000)</u>		<u>28,000</u>
Net Change in Fund Balance	(28,000)	(28,000)		28,000
Fund Balance Beginning	<u>28,000</u>	<u>28,000</u>	<u>27,293</u>	<u>(707)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 27,293</u>	<u>\$ 27,293</u>

KNOX COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

	PRIDE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
DISBURSEMENTS				
Roads	\$ 83	\$ 83	\$	\$ 83
Total Disbursements	83	83		83
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(83)	(83)		83
Net Change in Fund Balance	(83)	(83)		83
Fund Balance Beginning	83	83	83	
Fund Balance - Ending	\$ 0	\$ 0	\$ 83	\$ 83

KNOX COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2015

Note 1. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The county judge/executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

Note 2. Excess of Disbursements Over Appropriations

General Fund General Health and Sanitation and Debt Service exceeded budgeted appropriations by \$2,334,656 and \$183,000, respectively, thereby causing the entire General Fund to exceed budgeted appropriations by \$657,370. Occupational License Fee Fund General Government (and total appropriations) exceeded budgeted appropriations by \$14,513.

KNOX COUNTY
SUPPLEMENTARY SCHEDULE
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015

KNOX COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

The fiscal court reports the following schedule of capital assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 1,609,145	\$	\$	\$ 1,609,145
Buildings and Building Improvements	8,456,800			8,456,800
Vehicles	892,663	42,420		935,083
Equipment	1,819,647	117,600		1,937,247
Infrastructure	12,253,423	810,532		13,063,955
 Total Capital Assets	 <u>\$ 25,031,678</u>	 <u>\$ 970,552</u>	 <u>\$ 0</u>	 <u>\$26,002,230</u>

KNOX COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - SCHEDULE OF CAPITAL ASSETS

June 30, 2015

Note 1. Capital Assets

Capital assets, which include land, land improvements, buildings and building improvements, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported as other information. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Vehicles	\$ 2,500	3-10
Equipment	\$ 2,500	3-25
Infrastructure	\$ 20,000	10-50

Note 2. Assets Held For Resale

In June 2014, two 2015 Mack trucks were purchased with an acquisition cost of \$261,780. These trucks are not included in capital assets, as Knox County does not intend to hold the assets beyond one year. In fiscal year 2015, the fiscal court resold these trucks for \$257,090.

In June 2015, two Mack trucks were purchased with an acquisition cost of \$269,804. These trucks are not included in capital assets, as Knox County does not intend to hold the assets beyond one year. These trucks were still in the county's possession as of June 30, 2015.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable J.M. Hall, Knox County Judge/Executive
Members of the Knox County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards***

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Knox County Fiscal Court for the fiscal year ended June 30, 2015, and the related notes to the financial statement which collectively comprise the Knox County Fiscal Court's financial statement and have issued our report thereon dated September 13, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Knox County Fiscal Court's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Knox County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Knox County Fiscal Court's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2015-001, 2015-002, 2015-003, and 2015-006 to be material weaknesses.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards*
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Knox County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying comments and recommendations as items 2015-002, 2015-004, and 2015-005.

County Judge/Executive's Response to Findings

The Knox County Judge/Executive's responses to the findings identified in our audit are described in the accompanying comments and recommendations. The Knox County Judge/Executive's responses was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

September 13, 2016

**KNOX COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2015

KNOX COUNTY
COMMENTS AND RECOMMENDATIONS

Fiscal Year Ended June 30, 2015

FINANCIAL STATEMENT FINDINGS:

2015-001 The Knox County Fiscal Court Lacks Adequate Segregation Of Duties Over Disbursements

The Knox County Fiscal Court lacks adequate segregation of duties over disbursements. The county treasurer posts the disbursements to the ledgers, prepares and signs the checks, and reconciles the bank account monthly. In addition, the county treasurer prepares the financial report. The condition is a result of a limited budget, which restricts the number of employees the fiscal court can hire or delegate duties to. Lack of segregation of duties increases the fiscal court's risk of misappropriation of assets, errors and inaccurate financial reporting. Segregation of duties over disbursements or implementation of compensating controls due to a limited number of staff, is essential for providing protection to employees in the normal course of performing their duties and can also prevent inaccurate financial reporting and misappropriation of assets. We recommend the fiscal court strengthen internal controls by segregating these duties. If segregation is not possible due to a limited number of staff, strong oversight should be implemented. The employee providing this oversight should document his or her review by initialing all source documentation.

County Judge/Executive J.M. Hall's Response: In the future one employee will complete reconciliations monthly, another employee will review the reconciliations and initial that they have reviewed the reconciliations.

2015-002 The Knox County Fiscal Court Did Not Have Strong Internal Controls Over Disbursements

Internal controls over disbursements were not operating as intended during fiscal year 2015. Disbursements were not properly authorized, supporting documentation was not maintained and appropriate, and proper procedures were not followed. As a result of not monitoring controls, the deficiencies below occurred. These deficiencies could result in inaccurate reporting and misappropriation of assets. The following exceptions were noted:

- The fiscal court approved one claim in the amount of \$269,804; however, the available line item for "New Machinery and Equipment" was \$264,853, leaving a negative balance of \$4,951 when payment was approved and paid.
- Eight instances were noted where disbursements were made and not presented to the fiscal court prior to payment or included on the annual standing order to pre-approve certain recurring expenses. Subsequent to payment, they were presented to the fiscal court and approved.
- Two disbursements were not presented to the fiscal court. One was for asphalt in the amount of \$224,159, and the other was \$82 for affidavit on deed tax.
- Two disbursements were not paid within 30 days. No late fees or interest were incurred.
- Four instances of no documentation to support contributions made to the hospital and one for the sheriff's office. In addition, the hospital contributions were incorrectly posted as capital assets.
- Three credit card disbursements totaling \$248 did not have receipts, and two totaling \$330 were missing invoices. Two purchase orders were dated after invoice and interest of \$0.15 was charged for a \$15 balance not paid in prior month.
- Hauling tickets were not signed by road department personnel for gravel documenting the delivery date and quantity.

**KNOX COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2015
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-002 The Knox County Fiscal Court Did Not Have Strong Internal Controls Over Disbursements
(Continued)

- Ten out of 115 gas receipts tested were not maintained to support the monthly statement.
- Four instances were noted where disbursements did not have purchase orders attached to the invoice.
- Twelve out of 69 invoices tested had purchase orders dated after the date of the invoices or receipts; therefore, items could have been ordered or services rendered without prior approval to ensure adequate funds were available in each account.
- Purchase orders attached to four gravel invoices tested totaling \$183,736 did not agree to the purchase order number on the haul tickets.

Proper internal controls over disbursements are important to ensure purchase orders are created when sufficient funds are available, are presented to the fiscal court, include proper supporting documentation, and are paid within 30 days. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. Per the *County Budget Preparation and State Local Finance Officer Policy Manual*, issued by the Department for Local Government (DLG) “purchases shall not be made without approval by the judge/executive (or designee), and/or a department head. ... Purchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate transfers have been made.”

KRS 68.300 states, in part, “[a]ny appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void.” KRS 68.275 requires claims within budget line items and authorized by the fiscal court be paid by the county judge/executive and co-signed by the county treasurer. In addition, KRS 68.275 requires the county judge/executive to present all claims to the fiscal court for review prior to payment unless the expenses are included on a standing order adopted by the fiscal court to preapprove the payment of certain claims such as monthly payroll and utility expenses. Furthermore, KRS 65.140 requires invoices to be paid within 30 days of being received. We recommend the fiscal court implement proper internal controls over disbursements and ensure they are operating effectively.

County Judge/Executive J.M. Hall's Response: In the future we will try to have all disbursements pre-approved and the fiscal court has implemented more internal controls over disbursements in that the County Treasurer is reviewing the disbursements made by the Finance Officer to assure disbursements are with the approved amounts.

KNOX COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2015
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-003 The Knox County Fiscal Court Did Not Have Adequate Internal Controls Over Gravel Inventory

The Knox County Fiscal Court does not have adequate internal controls over gravel purchased and stored at the county's road department. The road materials are contained within a fenced area to deter unauthorized access, and the county maintains a log for gravel that lists the date and location of job sites. However, the log does not document the gravel hauled to the road department from the rock quarry, making it impossible to estimate how much gravel should be in the stockpile. The fiscal court's lack of controls has created an opportunity for misappropriation of the county's assets to occur. When controls are not in place to protect the county's resources, the risk of fraud increases. Good internal controls dictate that the fiscal court have better recordkeeping over the gravel stockpile and log gravel activity. We recommend the county maintain a log to track the gravel hauled to the road department and also track the gravel hauled from the road department to jobsites. This would allow an estimate of gravel to be on hand and help determine if a shortage exists.

County Judge/Executive J.M. Hall's Response: The Fiscal Court has now assigned an employee to monitor and log all incoming and outgoing materials including gravel.

2015-004 The Knox County Fiscal Court Did Not Follow Proper Bid Laws And Regulations

The Knox County Fiscal Court did not properly bid and made payments to three vendors for purchases over \$20,000 in fiscal year 2015. These expenditures were for a jail van purchased for \$23,220, election machines for \$110,000, and two Mack trucks purchased for the road department for \$269,804. The election machines were bid and a vendor was awarded, but the county purchased from a different vendor than the one that was awarded the bid.

The fiscal court bid some purchases over \$20,000, but sufficient internal controls were not in place over the procurement process to ensure items were not purchased from vendors without first advertising or receiving bids when necessary. By limiting competition or not receiving bids at all, the fiscal court may not get the benefit of the best price available. Competitive bidding ensures the fiscal court procures equipment and services at the best price available. KRS 424.260(1) states, "Except where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or county, or sheriff or county clerk, may make a contract, lease, or other agreement for materials, supplies except perishable meat, fish, and vegetables, equipment, or for contractual services other than professional, involving an expenditure of more than twenty thousand dollars (\$20,000) without first making newspaper advertisement for bids." We recommend the fiscal court follow proper bid laws and regulations by ensuring all purchases of \$20,000 or more be made in compliance with KRS 424.260.

County Judge/Executive J.M. Hall's Response: If an emergency has not been declared, the Fiscal Court will bid all purchases required by KRS 424.260.

**KNOX COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2015
(Continued)**

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-005 The Knox County Fiscal Court Did Not Ensure The Same Level Of Health Insurance Benefits Are Provided To All County Employees As Stated In Kentucky Attorney General Opinion (OAG) 94-15

County employees are not receiving the same level of health insurance benefits. Elected officials are receiving county-paid family coverage while others are paying for the extra cost for family coverage. During the fiscal year ended June 30, 2015, the county paid as much as \$986 per month per employee for additional costs for the family plan over the single plan. The fiscal court believes they can separate elected officials and county employees. According to the County Administrative Code, "The County pays the premium for all individual health insurance policies offered by the county; except, however, the county will pay the premium for family health insurance plans for all elected county officials." As a result of different levels of health insurance benefits among the employees, it appears to be discrimination among the employees. In addition, county funds are being spent for the personal benefit of some employees which could have been expended on other necessary items for the benefit of the county. OAG 94-15 states, "The basic statute providing for governmentally funded health coverage (KRS 79.080) for public employees does not provide for one level of coverage for officers, and another level for employees. Accordingly, we believe such differing coverage would not be lawful as not authorized by statute." We recommend the fiscal court follow the direction expressed in OAG 94-15 and ensure the same level of health insurance coverage for all employees. The fiscal court should update the County Administrative Code to comply with KRS 79.080 and OAG 94-15.

County Judge/Executive's J.M. Hall's Response: All county employees are equal and all county elected officials are equal.

2015-006 The Knox County Jail Commissary Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

Due to the limited number of employees, the jail has a lack of segregation of duties over receipts and disbursements. The bookkeeper prepares deposits and posts these deposits to the receipts ledger. The bookkeeper also prepares and signs checks and posts these disbursements to the disbursements ledger. This condition is a result of a limited budget, which restricts the number of employees the county can hire or delegate duties to. Lack of segregation of duties increases the risk of misappropriation of assets, errors, and inaccurate financial reporting. Adequate segregation of duties would prevent the same person from having a significant role in these incompatible functions. In addition, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. Segregation of duties, or the implementation of compensating controls, is essential for providing protection to employees in the normal course of business. We recommend the jailer implement strong oversight in these areas, either by having an employee independent of those functions or the jailer review transactions and initial the documentation.

County Judge/Executive J.M. Hall's Response: See Jailer's Response.

County Jailer Mary Hammons' Response: We will be working on segregation of duties.

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

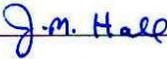
KNOX COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2015**

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
KNOX COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2015

The Knox County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



County Judge/Executive



County Treasurer

